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Australia

Cotton and Products

Quarterly Update

2006

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Report Highlights:

Australia is now firmly in the grip of widespread drought. Cotton plantings have declined sharply in line with dramatic cuts in irrigation water allocations and dwindling irrigation water reserves. Industry reports put cotton production for 2006/07 at its lowest level in 20 years.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Unscheduled Report
Canberra [AS1]
[AS]

SECTION ONE: SITUATION AND OUTLOOK**Summary**

Australia is now firmly in the grip of widespread drought. Cotton plantings have declined sharply in line with dramatic cuts in irrigation water allocations and dwindling irrigation water reserves. Industry reports put cotton production for 2006/07 at its lowest level in 20 years.

Despite Post's assumption of a return to more normal weather conditions from December onwards, planted area and subsequent cotton production in 2006/07 is likely to remain at historically low levels.

Weather Conditions

Since Post's last report, (GAIN Report AS6053) conditions have deteriorated from drier-than-average to full-blown drought. Spring rains, which are critical for planting summer crops such as cotton, have not eventuated. Furthermore, various parts of Australia have experienced above average temperatures dramatically shortened spring conditions. The opportunity for effective spring rainfall has now passed.

The month of September experienced below average rainfall and above average temperatures. These conditions have followed historically low rainfall periods beginning with the driest June on record. Bureau of Meteorology reports describe the period from June to October as suffering "severe rainfall deficiencies" (lowest five percent of historical records). Some districts have suffered their lowest rainfall period on record during this time.

Post has assumed average weather conditions from November onwards. However, even if this occurs (and average rainfall is received), it is unlikely to provide the relief necessary to achieve a return to normal production conditions. The moisture deficit created by drought conditions from June through to October will likely constrain agricultural production over the next 12 months.

Water usage

Industry reports state that in an average year, about half of the water used in cotton production is met by rainfall while the remaining half is met by irrigation.

The cotton industry accounts for about 15 percent of total agricultural irrigation water usage while sugar, cereals and rice account for 12, 11 and seven percent respectively. Pasture production accounts for 36 percent of the volume of water used for irrigation. Up to 20 percent of the planted area can be dryland cotton, which requires no irrigation, however yields are typically low and the proportion of final production derived, is much smaller.

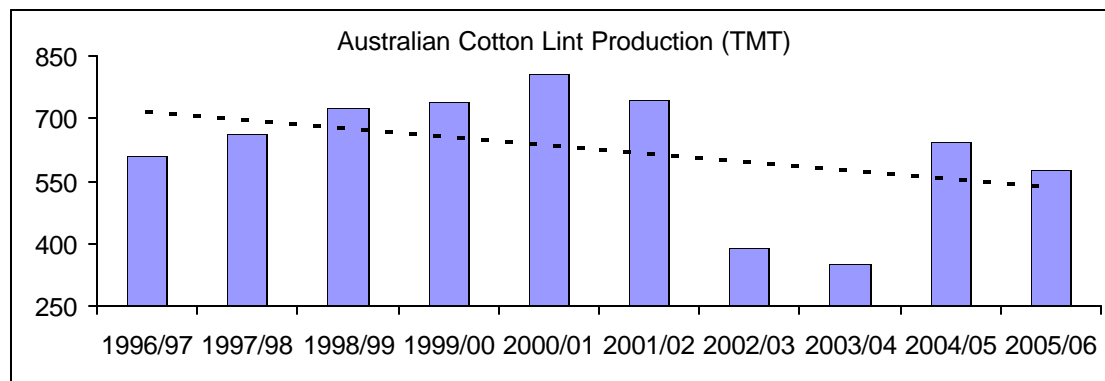
According to industry data, without significant rainfall, irrigation water allocation will likely not improve during the 06/07 seasons. The catchment area of southern New South Wales has reportedly received its lowest inflow for 115 years.

Production

Australian cotton production in 2006/07 is forecast at 290,000 MT, down sharply from the previous forecast of 430,000 MT and down from the 600,000 MT produced in the previous year (just under 1.3 million bales). The reduction in production is principally driven by a reduction in planted area with yield remaining virtually unchanged from Post's previous

report (GAIN Report #AS6053). If realized, production at this level would represent the smallest crop for 20 years.

Historically low rainfall, both in cotton growing regions and their adjacent catchment areas, has dramatically reduced irrigation water reserves and subsequent water allocations. This situation is not likely to change for the 2006/07 season.



Source: ABARE data

Exports

Exports of cotton in 06/07 are forecast to fall to 458,000 MT, down sharply from the 651,000 MT exported in the previous year. It is important to note that the post-harvest nature of cotton production requires the majority of the crop to be exported in the year following its harvest. It is for this reason that exports have not yet fallen to levels similar to production. Declining stock levels are expected to further negatively impact exports.

SECTION TWO: STATISTICAL TABLES

PSD Table Cotton										
	2004	Revised		2005	Estimate		2006	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		08/2004	08/2004		08/2005	08/2005		08/2006	08/2006	MM/YYYY
Area Planted	0	0	0	0	0	0	0	0	0	(HECTARES)
Area Harvested	314	321	314	336	336	336	200	225	155	(HECTARES)
Beginning Stocks	894	901	894	1957	1877	1957	1938	1653	1805	1000 480 lb. Bales
Production	3000	2962	3000	2800	2756	2600	1700	1975	1278	1000 480 lb. Bales
Imports	1	1	1	0	1	0	0	1	1	1000 480 lb. Bales
MY Imports from U.S.	0	0	0	0	0	0	0	0	0	1000 480 lb. Bales
Total Supply	3895	3864	3895	4757	4634	4557	3638	3629	3084	1000 480 lb. Bales
Exports	1998	1998	1998	2884	2990	2762	2450	2563	2018	1000 480 lb. Bales
Use	65	115	65	60	115	110	55	115	110	1000 480 lb. Bales
Loss	-125	-125	-125	-125	-125	-120	-125	-125	-120	1000 480 lb. Bales
Total Dom. Cons.	-60	-10	-60	-65	-10	-10	-70	-10	-10	1000 480 lb. Bales
Ending Stocks	1957	1877	1957	1938	1653	1805	1258	1077	1076	1000 480 lb. Bales
Total Distribution	3895	3865	3895	4757	4633	4557	3638	3630	3084	1000 480 lb. Bales
Stock to Use %	94.86185	88.83105	94.86185	65.8288	53.23671	62.84819	50.21956	40.21658	50.56391	(PERCENT)
Yield	2080	2009	2080	1814	1786	1685	1851	1911	1795	(KG/HA)

Recent Reports from FAS/Canberra

The reports listed below can all be downloaded from the FAS website at:

<http://www.fas.usda.gov/scriptsw/AttacheRep/default.asp>.

Report Number	Title of Report	Date
AS6076	AWB Proposes Split; Prime Minister to Propose Reform Next Week	11/30/06
AS6075	Cole Inquiry Into AWB Conduct Under Oil-For-Food Program	11/28/06
AS6074	Citrus Annual	11/27/06
AS6073	Ag DownUnder Vol. 17	11/17/06
AS6072	Dairy Annual	11/17/06
AS6071	AWB Rejects Export Applications for 3 MMT, Sparks Controversy	11/09/06
AS6070	Australia Revises Import Conditions for California Table Grapes	11/06/06
AS6069	Ag DownUnder Vol. 16	11/03/06
AS6068	Australia Considers Grain Imports; Additional Drought Aid Announced	10/31/06
AS6067	Government Announces Changes to Import Risk Analysis Process	10/31/06
AS6066	Grain Quarterly Update	10/20/06
AS6065	Frost Affects Fruit Production in Goulburn Valley, Victoria and Tasmania	10/18/06
AS6064	A\$350m Additional Drought Aid	10/17/06
AS6063	Ag DownUnder Vol. 15	10/12/06
AS6062	Corish Report: Australian Government Response	10/04/06
AS6061	Sugar Semi-Annual	09/29/06
AS6060	Exporter Guide	09/29/06
AS6059	Export Certificate Report	09/27/06